

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08  
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01  
L-03 H-02 PA-02 /136 W  
-----024754 311745Z /42

P R 311723Z MAY 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 6676  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USMISSION GENEVA  
USDOC WASHDC

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USEEC ALSO FOR EMBASSY  
USOECN ALSO FOR EMBASSY  
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR  
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A  
TAGS: ECON, UK  
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD MAY 25 - 31

SUMMARY: THE BANK OF ENGLAND HAS ANNOUNCED THAT IT WILL  
HENCEFORTH ADMINISTRATIVELY SET THE MINIMUM LENDING RATE  
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(MLR). CHANCELLOR HEALEY HAS ASKED FOR AN EXTENSION OF  
THE IMF STANDBY CREDIT. THE NIESR FORECAST PREDICTS A  
"GLOOMY" OUTLOOK FOR 1979. STERLING IS REPORTED TO HAVE  
STRENGTHENED THIS WEEK BUT RATHER BECAUSE OF THE WEAKNESS  
OF THE DOLLAR THAN ON ITS OWN RECOVERY. THE NEW MODE OF  
DETERMINING MLR HAS NOT HAD A CONTINUING IMPACT ON GILT  
SALES. END SUMMARY.

1. THE BANK OF ENGLAND WILL HENCEFORTH SET THE MINIMUM LENDING RATE (MLR) ACCORDING TO ITS PREFERENCE RATHER THAN TYING IT TO THE AVERAGE TREASURY BILL RATE AT THE FRIDAY AUCTION AS IT HAS NORMALLY DONE OVER THE PAST SIX YEARS. THE BANK STATED THAT MLR WOULD CONTINUE AT 9 PERCENT FOR THE TIME BEING. MARKET SOURCES INDICATE THAT UNCERTAINTY AS TO THE COURSE OF SHORT-TERM INTEREST RATES MAY ENCOURAGE INSTITUTIONAL BUYERS OF GILTS TO MAINTAIN LIQUID PORTFOLIOS. IT WAS HOPED THAT THE MOVE ON MLR WOULD HAVE THE SHORT-TERM ADVANTAGE OF REMOVING SOME OF THIS UNCERTAINTY, THEREBY AIDING GILT SALES (SEE LONDON 8383).

2. CHANCELLOR HEALEY ANNOUNCED IN THE COMMONS THAT HE WAS SEEKING TO EXTEND THE IMF STANDBY CREDIT FOR SEVEN MONTHS, AND REAFFIRMED HIS INTENTION TO ADHERE TO THE MONETARY AND FISCAL CEILINGS SPECIFIED IN HIS APRIL BUDGET MESSAGE. (SEE LONDON 8384.)

3. NIESR FORECAST. IN ITS SECOND QUARTERLY FORECAST OF 1978 TO BE PUBLISHED JUNE 1, THE NATIONAL INSTITUTE FOR ECONOMIC AND SOCIAL RESEARCH (NIESR) EXPECTS "A BRIEF RECOVERY IN DEMAND AND OUTPUT LED BY CONSUMERS' EXPENDITURE AND PRIVATE INVESTMENT." HOWEVER "THE OUTLOOK FOR 1979 REMAINS GLOOMY." THE PRINCIPAL ELEMENTS OF THE FORECAST ARE SUMMARIZED IN THE FOLLOWING TABLE:  
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|                                                             | 1977 | 1978 | 1979 |
|-------------------------------------------------------------|------|------|------|
| REAL GDP (PERCENT CHANGE, YEAR/YEAR)                        | 0.8  | 2.5  | 1.8  |
| REAL PERSONAL DISPOSABLE INCOME (PERCENT CHANGE, YEAR/YEAR) | -1.3 | 5.4  | 1.1  |
| UNEMPLOYMENT (4TH QUARTER MILLION)                          | 1.4  | 1.4  | 1.5  |
| MONEY SUPPLY (PERCENT CHANGE IN STERLING M3, FISCAL YEARS)  | 15.0 | 12.0 | 11.0 |
| CONSUMER PRICES (PERCENT CHANGE, YEAR/YEAR)                 | 14.3 | 9.4  | 11.4 |
| CURRENT ACCOUNT BALANCE (YEAR, POUNDS BILLION)              | -    | 0.3  | 1.0  |
| PUBLIC SECTOR BORROWING REQUIREMENT                         |      |      |      |

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INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08  
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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01  
L-03 H-02 PA-02 /136 W  
-----024784 311745Z /41

P R 311723Z MAY 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 6677  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH  
USMISSION GENEVA  
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(FISCAL YEAR, POUNDS BILLION) 5.7 8.3 9.0  
IN ITS APPRAISAL SECTION, NIESR OBSERVES THAT "THE SLACK-  
ENING OF DEMAND WHICH WE FORESEE IN 1979 WOULD SEEM TO  
CALL FOR FURTHER STIMULUS LATER THIS YEAR, BUT ANY SUCH  
STIMULUS WOULD REVERSE THE CURRENT BALANCE SURPLUS. WITH  
THE RISK OF DRIVING DOWN THE EXCHANGE RATE FASTER AND EX-  
ACERBATING THE RISE IN INFLATION." NIESR ADDS THAT IN A  
FLOATING RATE REGIME A COORDINATED PROGRAMME OF ECONOMIC  
POLICY IS NEEDED FOR ALL THE MAJOR COUNTRIES. REFERRING  
TO THE BONN SUMMIT, NIESR STATES THAT THE ONUS OF ADJUST-  
MENT MUST FALL ON THE SURPLUS COUNTRIES. AT THE SUMMIT,  
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THEY SHOULD BE ENCOURAGED TO INCREASE IMPORTS AND RESTRAIN  
EXPORTS. EVEN IF A COORDINATED PROGRAMME OF REFLATION  
EMERGED "THE UK COULD NOT GO MUCH FURTHER THAN IT HAS  
DONE WITHOUT A SIGNIFICANT EFFECTIVE DEVALUATION."  
NIESR CONCLUDES BY CALLING FOR A THOROUGH EXAMINATION  
OF THE EXPERIENCE OF FLOATING EXCHANGE RATES. IT ADMITS

THAT THE WIDE SPREAD IN NATIONAL RATES OF INFLATION REQUIRES A HIGH DEGREE OF FLEXIBILITY IN EXCHANGE RATES BUT ARGUES THAT "THE EXPERIENCE OF FLOATING IS BEGINNING TO CALL FOR CAREFUL RE-APPRAISAL, AGAINST THE HOPED-FOR DAY WHEN DIFFERENCES IN RATES OF DOMESTIC COST INFLATION BECOME A GOOD DEAL NARROWER THAN THEY NOW ARE."

4. STERLING STRENGTHENED AGAINST THE DOLLAR THIS WEEK, MORE ON DOLLAR WEAKNESS THAN STERLING STRENGTH, AND GENERALLY HELD ITS OWN AGAINST CONTINENTAL CURRENCIES. VOLUME HAS BEEN LOW -- "VERY QUIET" SAID ONE MAJOR BANK -- IN PART BECAUSE OF EUROPEAN AND U.S. HOLIDAYS AND THE ABSENCE OF SENIOR DEALERS, MANY OF WHOM ARE ATTENDING A FOREX CONFERENCE IN MUNICH.

5. GOVERNMENT SECURITIES. A SHORT-LIVED SURGE OF ACTIVITY FOLLOWED THE THURSDAY ANNOUNCEMENT OF THE CHANGE IN MLR DETERMINATION (SEE PARAGRAPH 1.) BUT THE MARKET RESUMED A POSITION OF QUIET WAITING SHORTLY THEREAFTER. THE VARIABLE RATE TREASURY 1982, 400 MILLION POUNDS OF WHICH WAS ISSUED JULY 4, 1977 WAS EXHAUSTED THURSDAY MORNING, SOMETIME BEFORE THE MLR ANNOUNCEMENT. FOLLOWING THE ANNOUNCEMENT, THE GOVERNMENT BROKER CUT THE PRICE OF THE SHORT TAP 1-1/4 POUNDS (PER 100 POUNDS NOMINAL VALUE) AND SOLD PERHAPS 100 MILLION POUNDS THAT AFTERNOON. 800 MILLION POUNDS WORTH OF THE SHORT TAP, THE 9-1/4 PERCENT EXCHEQUER "A" WAS ISSUED ON MAY 18, BUT

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VERY LITTLE ASIDE FROM THAT ON THURSDAY HAS BEEN SOLD. ONE MARKET SOURCE EXPRESSED THE OPINION THAT THE NEW MLR ARRANGEMENTS WILL NOT AFFECT THE COURSE OF GILT SALES APPRECIABLY. HE SAID THAT BANK WILL STILL CONFER WITH THE DISCOUNT HOUSES TO SET THE TREASURY BILL RATE, THE MLR NOW GIVING PRIOR NOTIFICATION RATHER THAN POSTERIOR ACKNOWLEDGEMENT OF THE BANK'S DECISIONS.

#### 6. EXCHANGE RATE AND GOLD EFFECTIVE

| DATE                                         | EXCHANGE RATE      |                        |         | GOLD (\$) |
|----------------------------------------------|--------------------|------------------------|---------|-----------|
|                                              | EXCHANGE RATE (\$) | (DEC. 1971 EQUALS 100) |         |           |
| 5/24                                         | 1.8125             | 61.6                   | 180-1/8 |           |
| 5/25                                         | 1.8135             | 61.5                   | 178-3/8 |           |
| 5/26                                         | 1.8125             | 61.4                   | 179-7/8 |           |
| 5/29                                         | MARKETS CLOSED     |                        |         |           |
| 5/30                                         | 1.8185             | 61.4                   | 182-7/8 |           |
| CHANGE 5/23-5/30 UP 0.0080 DOWN 0.2 UP 1-3/4 |                    |                        |         |           |

#### 7. FORWARD PREMIUM ON STERLING

| DATE | 1 MONTH | 3 MONTHS | 6 MONTHS |
|------|---------|----------|----------|
|      |         |          |          |

|                                          |                |        |        |
|------------------------------------------|----------------|--------|--------|
| 5/24                                     | - 0.45         | - 1.32 | - 2.80 |
| 5/25                                     | - 0.28         | - 1.10 | - 2.30 |
| 5/26                                     | - 0.32         | - 1.20 | - 2.48 |
| 5/29                                     | MARKETS CLOSED |        |        |
| 5/30                                     | - 0.35         | - 1.12 | - 2.25 |
| CHANGE 5/23-5/30 UP 0.13 UP 0.25 UP 0.67 |                |        |        |
| (ALL FIGURES IN CENTS)                   |                |        |        |

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-----024804 311745Z /42

P R 311723Z MAY 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC PRIORITY 6678  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY DUBLIN  
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#### 8. EURODOLLAR INTEREST RATES

| DATE | 1 MONTH        | 3 MONTHS | 6 MONTH |
|------|----------------|----------|---------|
| 5/24 | 7-7/16         | 7-3/4    | 8-3/8   |
| 5/25 | 8-1/8          | 8        | 8-1/2   |
| 5/26 | 8-1/8          | 8-1/8    | 8-1/2   |
| 5/29 | MARKETS CLOSED |          |         |

5/30 8 8-1/16 8-1/2  
CHANGE 5/23-5/30 UP 1/4 DOWN 1/16 UP 1/8

9. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST  
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RATE DIFFERENCIAL

DATE  
5/24 2-1/16  
5/25 1-15/32  
5/26 1-1/4  
5/29 MARKETS CLOSED  
5/30 1-3/8  
CHANGE 5/23-5/30 DOWN 13/32

10. STERLING CERTIFICATES OF DEPOSIT

| DATE                                           | 1 MONTH        | 3 MONTHS | 6 MONTHS |
|------------------------------------------------|----------------|----------|----------|
| 5/24                                           | 8-29/32        | 9-9/16   | 9-7/8    |
| 5/25                                           | 8-27/32        | 9-1/4    | 9-17/32  |
| 5/26                                           | 8-15/16        | 9-7/32   | 9-19/32  |
| 5/29                                           | MARKETS CLOSED |          |          |
| 5/30                                           | 8-13/16        | 9-9/32   | 9-5/8    |
| CHANGE 5/23-5/30 DOWN 3/32 DOWN 3/8 DOWN 11/32 |                |          |          |

11. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON GOVERN-  
MENT SECURITIES

| DATE                                     | 5 YEARS        | 15 YEARS | 25 YEARS |
|------------------------------------------|----------------|----------|----------|
| 5/24                                     | 11.45          | 12.70    | 13.14    |
| 5/25                                     | 11.43          | 12.71    | 13.14    |
| 5/26                                     | 11.52          | 12.79    | 13.20    |
| 5/29                                     | MARKETS CLOSED |          |          |
| 5/30                                     | 11.62          | 12.81    | 13.23    |
| CHANGE 5/23-5/30 UP 0.15 UP 0.09 UP 0.08 |                |          |          |

12. THE MINIMUM LENDING RATE REMAINED 9 PERCENT AS AD-  
MINISTERED BY THE BANK OF ENGLAND.

THE TREASURY BILL RATE ROSE 0.0301 PERCENT TO 8.4825  
PERCENT AT FRIDAY'S AUCTION, AS 711.21 MILLION POUNDS OF  
BIDS WERE RECEIVED FOR THE 500 MILLION POUNDS TENDERED.  
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THIS WEEK 400 MILLION POUNDS IN BILLS WILL BE OFFERED AS  
A SIMILAR AMOUNT MATURE.

BREWSTER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, ECONOMIC REPORTS, FINANCIAL TRENDS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 31 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** ALSO FOR USEEC AND USMTN  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780227-0928  
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**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Page Count:** 7  
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**Previous Handling Restrictions:** n/a  
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**Retention:** 0  
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**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2634818  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC DEVELOPMENTS FOR PERIOD MAY 25 - 31 SUMMARY: THE BANK OF ENGLAND HAS ANNOUNCED THAT IT WILL HENCEFORTH ADMINISTRATIVELY SET THE MINIMUM LEN DIN  
**TAGS:** ECON, UK  
**To:** STATE TRSY MULTIPLE  
**Type:** TE  
**vdkgvkey:** odb://SAS/SAS.dbo.SAS\_Docs/2584179a-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014